December 30, 1999

D.T.E. 97-120-D

Petition of Western Massachusetts Electric Company pursuant to General Laws Chapter 164, §§ 76 and 94, and 220 C.M.R. §§ 1.00 et seq., for review of its electric industry restructuring proposal.

ORDER ON STANDARD OFFER COMPLIANCE FILINGS

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I. INTRODUCTION

On September 17, 1999, the Department issued its Order on Western Massachusetts Electric Company ("WMECo" or "Company") restructuring plan. Western Massachusetts Electric Company, D.T.E. 97-120 (1999).[(1)] Pursuant to the Department's Order in D.T.E. 97-120, on December 15, 1999, the Company submitted a compliance filing, for the Department's review with respect to the procurement of standard offer and default service.[(2)] On December 21, 1999, WMECo submitted a separate compliance filing with respect to its procurement of standard offer service for customers on the Company's interruptible rate. In support of each filing, the Company submitted prefiled testimony of Richard A. Soderman, director of regulatory policy and planning for Northeast Utilities Service Company ("NUSCo") and James R. Schuckerow, Jr., director of wholesale power contracts for Northeast Utilities ("NU"), and the contracts between WMECo and winning suppliers.[(3)]

II STANDARD OFFER AND DEFAULT SERVICE

A. Standard Offer and Default Service General Solicitation

On November 1, 1999, WMECo issued its standard offer request for proposals ("RFP"). The Company states that the RFP included 100 percent of the full requirements service of its standard offer and default service customers, exclusive of those customers on interruptible rates (WMECo-Comp-RFP-1, Testimony at 3). WMECo states the RFP covered the supply requirements from January 1, 2000 through December 31, 2000 (id.).

The Company states that in accordance with the Department's directives in D.T.E. 97-120, it: (1) set the standard offer retail rate at the wholesale supply price identified through the standard offer solicitation; (2) set the default service rate at the standard offer rate; and (3) required any affiliate to submit its bid one day prior to the bid deadlines for all non-affiliated bidders (id. at 4). In addition, WMECo states that it retained Navigant Consulting, Inc. as a neutral third party to evaluate the solicitation process as well as Deloitte Consulting as its own consultant (id. at 5).[(4)]

WMECo states that certain changes were made to the solicitation document reviewed in D.T.E 97-120. According to WMECo, these changes were made to take into account current experiences with successful solicitations, with the support of Division of Energy Resources ("DOER") and without objection from the Attorney General (id. at 6). Included among the changes were: (1) a reduction in the number of options that could be chosen by a bidder; (2) term for standard offer was modified to only one year given the state of the New England energy market; and (3) the minimum load shares decreased from 25 percent to 20 percent to accommodate smaller respondents more readily (id. at 6, 8). The Company states that the focus of the November 1, 1999 RFP was on load shares, which represented one of the options considered in D.T.E. 97-120 (id. at 6).[(5)]

The Company states that, based on input from potential suppliers, the solicitation was designed so that bidders could submit prices that would differ monthly or seasonally if the bidders could guarantee that it would produce the least-cost supply (id. at 11). WMECo states that it chose pricing that was not constant throughout the year to prevent customers from gaming their generation service (id.). WMECo explains that if the default service prices were levelized for the year, a customer might take default service when the market price is high and choose a competitive supplier when the market price is low; thus, "gaming" generation service (id.). WMECo also claims that based on the bids received, if it accepted annual bids rather than a combination of annual and monthly bids, its cost of supply would have increased by 1.4 percent (id. at 12).

WMECo states that it summarized all bids received and identified four winning bids (id. at 11). The Company states that its bid evaluation was reviewed by Navigant Consulting, Inc. and Deloitte Consulting (id.). According to the Company, contracts were signed with Alternate Power Source, Inc. with 40 percent of the supply requirement, and Southern Company Energy Marketing, L.P., Constellation Power Source and Consolidated Edison Energy, Inc., each with 20 percent of the supply requirement (id.). The Company asserts that the least-cost supply portfolio from the RFP respondents included contracts with monthly pricing, and that WMECo should be permitted to adopt this monthly pricing schedule for both its standard offer and default service customers (id. Letter at 2). WMECo reports the monthly average charge for its four standard offer suppliers as follows:

Standard Offer and Default Service Rates

Month	cents per kilowatthour
January	4.322
February	4.341
March	4.271
April	4.246
May	4.300
June	4.976
July	5.267
August	5.332

September 4.714

October 4.257

November 4.257

December 4.242

(id., Testimony at 2, 3).

WMECo states that based on the final contract price from each of these selected winners, the overall weighted average standard offer rate is 4.557 cents per kilowatthour ("KWH") for the year 2000 (id. at 3).

B Standard Offer and Default Service for Interruptible Rate

On November 12, 1999 WMECo issued a separate interruptible rate RFP for full requirements service for both WMECo and the Connecticut Light and Power Company's ("CL&P") interruptible customers for the year 2000. The Company states that it has nine interruptible customers for a coincident peak usage of approximately 18.3 megawatts ("MW"). To enhance the drawing power of its solicitation, WMECo combined its solicitation with CL&P, for a combined supply requirement of approximately 110 MW (WMECo-Comp-RFP-2, Testimony at 4). The Company explains that the portion of service subject to interruption is viewed by the New England Independent System Operator ("ISO-NE") as an interruptible resource that is available for reliability-based curtailment (id. at 5). The Company further explains that a supplier selected to serve this load can receive a capability credit toward its capability settlement obligations with ISO-NE (id.). The Company anticipated that suppliers would view this credit as a favorable characteristic of the supply obligation and in turn lower their bid prices (id.). The Company states that it therefore separated its interruptible customers from the general standard offer solicitation (id.).

WMECo states that the solicitation process was similar to the general solicitation for standard offer described above. According to WMECo, suppliers were requested to provide either twelve monthly fixed priced bids or one annual fixed price bid for the portion of the load that would not be interrupted ("Firm Service") (id. at 6). In addition, the Company states that twelve monthly fixed price bids were required for both the on-peak and off-peak hours for interruptible service (id. at 7). WMECo explains that it considered this pricing scheme because it gave suppliers the flexibility needed to reduce costs (id. at 8). According to WMECo, its interruptible customers have interval recording meters that can be used to determine consumption on an hourly basis (id. at 7). WMECo further explains that by providing three separate categories, suppliers would have more detail about what load they would be required to serve (id. at 8).

Based on the results of the solicitation, WMECo proposes to have different pricing for firm service, on-peak, and off-peak interruptible service and each category will vary on a monthly basis throughout the year (id. at 7). The Company states that the supplier with the lowest average annual price was selected as the single winner. WMECo explains that of the four bids received, Select Energy, Inc. ("Select") provided the least cost bid. WMECo contends that no preferential treatment was given to its affiliate, Select, and that it used the same procedures and protocols with Select as it did for all potential bidders (id. at 8).

C. Analysis and Findings

In D.T.E. 97-120, at 181-190, the Department directed the Company to: (1) set standard offer retail rate at the wholesale supply price identified through the standard offer solicitation; (2) set default service rate at the standard offer rate; (3) require any affiliate to submit its bid one day prior to the bid deadlines for all non-affiliated bidders; (4) allow bids that would serve 25 percent, 50 percent, 75 percent or 100 percent of the load; and (5) allow bidders to propose services for periods of time of not less than one year instead of the entire standard offer period. D.T.E. 97-120, at 181-190. In addition, the Department supported the appointment of a neutral third party in the evaluation of bids and encouraged the Company to work with DOER and the Attorney General to identify such an entity. As stated by the Company, the RFP was revised subsequent to the issuance of D.T.E 97-120 with the support of DOER, and without objection from the Attorney General. In our review of the Company's compliance filings, the Department finds the Company met the directives to set standard offer retail rate at the wholesale supply price identified through the standard offer solicitation and to set default service rate at the standard offer rate as stipulated in D.T.E. 97-120, at 190. With respect to the RFP modifications made by the Company in consultation with DOER, the Department finds that such changes are responsive to the Department's Order in D.T.E. 97-120. Therefore, the Department approves WMECo's standard offer solicitation process as well as the contracts between WMECo and the standard offer service suppliers, Alternate Power Source, Inc., Southern Company Energy Marketing, L.P., Constellation Power Source, and Consolidated Edison Energy, Inc.

While the Company has appropriately proposed to set the standard offer rate at the wholesale supply price, the Department does not find, at this time, that a varying monthly price for standard offer or default service is appropriate. While varying rates monthly or seasonally may actually be more economically efficient in that it could better match cost conditions, we are not prepared to allow it at this time, because such pricing would not provide the rate stability, or a clear benchmark for customers opting to chose a competitive supplier, that an annual standard offer rate would provide.[(6)] Therefore, the Department directs the Company to set the standard offer and default service rates as an annual rate based on the weighted average monthly rates as calculated by the Company.[(7)] While the Department recognizes that the Company has conducted a successful solicitation of standard offer supply, it is most important at this point in the transition to a competitive market to provide a stable and

clear benchmark for customers shopping among competitive suppliers. Pricing that varies more frequently than annually may well be appropriate in the future, if warranted by cost conditions when a competitive market is in full operation, but it is not appropriate at this time as an attempt to address "gaming" opportunities.

With respect to the Company's standard offer rates for the interruptible customers, the Department recognizes that these customers have the expertise to avail themselves of interruptible rates. Furthermore, the interruptible customers are already billed on a price schedule that varies monthly; and, therefore, the Company's proposed price format is consistent with the interruptible customers' current billing format. Because of the sophistication of interval recording meters that can be used to determine consumption on an hourly basis, more information about the load required to serve was made available to suppliers. Through the interval recording meters, the Company was able to provide monthly projections of the total sales for firm service, on-peak, and off-peak sales. Providing these data gave suppliers more detail about what load they would be required to serve. That knowledge, in turn, helped to provide for a least-cost supply. The Department finds, in this instance, that it is appropriate to vary standard offer price for firm service, on-peak, and off-peak interruptible service on a monthly basis, for it more accurately represents the marketplace to customers presently able to deal with its fluctuations.(8) Therefore, the Department approves the Company's standard offer solicitation for interruptible customers and the proposed monthly prices for firm service, on-peak, and off-peak interruptible service. In addition, the Department approves the contract between WMECo and the standard offer interruptible service supplier, Select.

III. <u>ORDER</u>

Accordingly, after due consideration, it is

ORDERED: That the standard offer solicitation conducted by Western Massachusetts Electric Company be and hereby is APPROVED; and it is

FURTHER ORDERED: That the contracts for standard offer service between Western Massachusetts Electric Company and Alternate Power Source, Inc., Southern Company Energy Marketing, L.P., Constellation Power Source, Consolidated Edison Energy, Inc., and Select Energy, Inc. be and hereby are APPROVED; and it is

FURTHER ORDERED: That Western Massachusetts Electric Company shall comply with the directives of this Order.

By Order of the Department,

Janet Gail Besser, Chair

James Connelly, Commissioner

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

1. On October 18, 1999, Western Massachusetts Electric Company submitted a compliance filing. On December 20, 1999 the Department issued an Order on the Company's compliance filing with respect to its distribution rates and transition costs. Western Massachusetts Electric Company, D.T.E. 97-120-B, Order on Compliance Filing, (1999).

2. With its filings, WMECo filed a motion for protective treatment with respect to its standard offer solicitation. The Company requests the Department protect the following confidential information: (1) financial and pricing terms in the contracts between WMECo and the respective suppliers; and (2) bidding information.

3. On its own motion, the Department marks the Company's filings as Exhibits WMECo-Comp-RFP-1 and WMECo-Comp-RFP-2. Additionally, the Department marks the Company's responses to information requests as Exhibits DTE-11-1, DTE-11-2, and DTE-11-2SP.

4. On December 23, 1999, the Company submitted the solicitation evaluation report from Navigant Consulting, Inc. for Department review.

5. For a description of the options under which bidders could submit their proposals, see D.T.E. 97-120, at 172-174.

6. The Department will address concerns related to "gaming"default service pricing in its ongoing proceeding, Investigation by the Department of Telecommunications and Energy on its own Motion into the Pricing and Procurement of Default Service Pursuant to G.L. c. 164, § 1B(d), D.T.E. 99-60.

7. In Exhibit DTE-11-2SP, the Company provided information with respect to Rate T-2 that separates the standard offer service rate into an energy and demand component in order to achieve the rate reduction required by the Act. This information is constructive and useful, and the Company may design its rate using this approach.

8. Before long, of course, all customers will be developing these same abilities as the competitive electric market matures.